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Stress Testing Effects on Portfolio Similarities Among Large US Banks

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Intro

Objective

- Analyzing bank portfolio changes as a result of stress testing

Research question

- Does supervision balance the trade-off between its micro and macro objectives?

Contributes

1. Exploiting confidential supervisory dataset
2. Detailed investigation on the evolving similarity and concentration of SIFIs portfolios
3. Pointing out the negative externalities caused by stress tests via portfolio diversification

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Key Messages

1. Stress testing could have triggered a homogeneous portfolio diversification across individual US SIFIs that ultimately resulted in a more concentrated systemic portfolio in the aggregate
2. Stress tests do not serve the goal of macroprudential regulation as they should

Limitations

1. How does the research question emerge from existing literature?

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Suggestions

1. "*Firms commit in excessive diversification […] because they confronted with an incentive structure which drive them to correlate with their peers*" (Acharya & Yorulmazer, 2005; 2007)
2. Does diversification overcome the threshold from which individual benefit from diversification begins to be offset by the systemic risk from diversification? (Ibragimov *et al.*, 2011)
3. "*Asset commonality of European banks*" (Dissem, 2018)